

**More than \$2.6 Million in
Potentially Fraudulent
LWA Payments Were
Linked to DHS Employees'
Identities**





OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

September 27, 2022

MEMORANDUM FOR: The Honorable Deanne Criswell
Administrator
Federal Emergency Management Agency

Roland Edwards
Chief Human Capital Officer
Management Directorate
Department of Homeland Security

FROM: Joseph V. Cuffari, Ph.D. **JOSEPH V CUFFARI**
Inspector General

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JOSEPH V CUFFARI
Date: 2022.09.26
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SUBJECT: *More than \$2.6 Million in Potentially Fraudulent LWA
Payments Were Linked to DHS Employees' Identities*

Attached for your action is our final report, *More than \$2.6 Million in Potentially Fraudulent LWA Payments Were Linked to DHS Employees' Identities*. We incorporated the formal comments your office provided.

The report contains seven recommendations aimed at mitigating the risks of Lost Wages Assistance (LWA) and unemployment insurance program fraud and strengthening future Federal Emergency Management Agency programs. Your office concurred with five recommendations and did not concur with two. Based on information provided in your response to the draft report, we administratively closed recommendations 1, 2, 3, 5, and 7 because identical recommendations are being tracked as a result of OIG-22-69, *FEMA Did Not Implement Controls to Prevent More than \$3.7 Billion in Improper Payments from the Lost Wages Assistance Program*.

We consider recommendation 4 open and resolved. Once your office has fully implemented recommendation 4, please submit a formal closeout letter to us within 30 days so that we may close the recommendation. The memorandum should be accompanied by evidence of completion of agreed-upon corrective actions and of the disposition of any monetary amounts.

We consider recommendation 6 open and unresolved. As prescribed by *Department of Homeland Security Directive 077-01, Follow-Up and Resolution for Office of Inspector General Report Recommendations*, within 90 days of the date of this memorandum, please provide our office with a written response that



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includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for recommendation 6. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendation will be considered open and unresolved.

Please send your response or closure request to

OIGAuditsFollowup@oig.dhs.gov.

Consistent with our responsibility under the *Inspector General Act of 1978, as amended*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Bruce Miller, Deputy Inspector General for Audits, at (202) 981-6000.



DHS OIG HIGHLIGHTS

More than \$2.6 Million in Potentially Fraudulent LWA Payments Were Linked to DHS Employees' Identities

September 27, 2022

Why We Did This Audit

On August 8, 2020, the President directed FEMA to implement a \$44 billion LWA program to ease the economic burden for people who lost employment because of coronavirus disease 2019 (COVID-19). We conducted this audit to determine to what extent eligible DHS employees received FEMA's Disaster Relief Funds for supplemental state LWA.

What We Recommend

We made seven recommendations to FEMA and the Department to mitigate the risks of LWA and UI program fraud and strengthen future programs.

For Further Information:

Contact our Office of Public Affairs at (202) 981-6000, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov.

What We Found

The Federal Emergency Management Agency (FEMA) did not implement controls to prevent state workforce agencies (SWA) from paying more than \$2.6 million in Lost Wages Assistance (LWA) for potentially fraudulent claims made by Department of Homeland Security employees, or claimants who fraudulently used the identities of DHS employees to obtain LWA benefits. We reviewed data from 35 of the 54 SWAs that participated in the LWA program, representing 80 percent of the distributed LWA grant funds. We found 2,393 claims linked to DHS employees' identities, totaling \$3.3 million in LWA payments. Based on eligibility criteria and fraud risk indicators, we determined:

- 1,809 DHS employees were ineligible or potentially ineligible for LWA benefits. The claims linked to these employees' identities totaled more than \$2.4 million in potentially fraudulent LWA payments based on eligibility criteria.
- 584 DHS employees were eligible to receive LWA benefits. However, 167 of the claims linked to these employees' identities (\$242,240) showed a high or medium risk of fraudulent activity, including identity theft, based on fraud risk indicators.

This occurred because FEMA hastily implemented the LWA program in 11 days, during an unprecedented pandemic, without developing program controls to prevent fraud. Instead, FEMA overly relied on underlying unemployment insurance (UI) programs' controls, which had weaknesses (including how DHS' Office of the Chief Human Capital Officer processes UI claims), to determine LWA eligibility and prevent fraud. Additionally, FEMA did not ensure SWAs used consistent fraud prevention controls and did not verify the use of controls outlined in SWAs' state administrative plans. As a result, the LWA program was vulnerable to fraud, including identity theft, and risked more than \$2.6 million of the Disaster Relief Fund.

DHS Response

DHS concurred with five of the seven recommendations. Appendix B contains DHS' management response in its entirety.



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Abbreviations

CARES Act	<i>Coronavirus Aid, Relief, and Economic Security Act</i>
CBP	U.S. Customs and Border Protection
C.F.R.	Code of Federal Regulations
CISA	Cybersecurity and Infrastructure Security Agency
Coast Guard	United States Coast Guard
COVID-19	coronavirus disease 2019
DOL	U.S. Department of Labor
DUA	Data Use Agreement
FEMA	Federal Emergency Management Agency
FLETC	Federal Law Enforcement Training Centers
ICE	U.S. Immigration and Customs Enforcement
IP	internet protocol
LWA	Lost Wages Assistance
MGMT	Management Directorate
NASWA	National Association of State Workforce Agencies
NFC	National Finance Center
OCHCO	Office of the Chief Human Capital Officer
OMB	Office of Management and Budget
ONA	Other Needs Assistance
PRAC	Pandemic Response Accountability Committee
PUA	Pandemic Unemployment Assistance
SBA	Small Business Administration



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Secret Service	United States Secret Service
SWA	state workforce agency
TSA	Transportation Security Administration
UCFE	Unemployment Compensation for Federal Employees
UI	unemployment insurance
U.S.C.	United States Code
USCIS	U.S. Citizenship and Immigration Services



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Background

On March 27, 2020, the President signed the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act)¹ into law in response to an unprecedented pandemic. This act provided unemployment insurance (UI) benefits to individuals who lost work due to the coronavirus disease 2019 (COVID-19) pandemic. On August 8, 2020, the President issued a memorandum authorizing the Federal Emergency Management Agency (FEMA) to provide up to \$44 billion from the U.S. Department of Homeland Security's Disaster Relief Fund as additional relief to individuals unemployed because of the COVID-19 pandemic.² This program, known as the Lost Wages Assistance (LWA) program, was authorized under the Other Needs Assistance (ONA) category of FEMA's Individuals and Households Program.³

The LWA program paid eligible claimants a supplement of \$300 or \$400 per week,⁴ for up to 6 weeks, in addition to their weekly unemployment benefits. The LWA benefits were paid for the weeks ending August 1, 2020, through September 5, 2020.⁵ Claimants did not need to separately apply for the LWA program to receive the supplemental benefits. Instead, claimants only needed to be eligible for and receive at least \$100 per week, from one of nine underlying UI programs to qualify for LWA in each of the 6 covered weeks.⁶ Additionally, claimants were required by the Presidential Memorandum to provide self-certification that they were unemployed or partially unemployed due to disruptions caused by COVID-19.

Fraudulent Unemployment Insurance Claims and Identify Theft

Since the enactment of the CARES Act, states have experienced a surge in fraudulent unemployment claims involving cyber scams and identify theft. Many of these claims are filed by organized crime rings using stolen identities accessed or purchased from past data breaches, the majority of which involved larger criminal efforts unrelated to unemployment. Criminals use these stolen identities to fraudulently collect benefits across multiple states.

¹ Pub. L. No. 116-136.

² Memorandum on *Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019* (August 8, 2020).

³ According to 42 United States Code (U.S.C.) § 5174(a)(1), after a disaster, the Individuals and Households Program provides financial assistance to cover necessary expenses and serious needs not paid by insurance or other sources.

⁴ The Commonwealth of Northern Mariana Islands, Guam, Kentucky, and Montana elected to provide \$400 in weekly LWA benefits. All other participating states and territories elected to provide \$300 in weekly LWA benefits.

⁵ The week ending August 1, 2020, began on July 25, 2020.

⁶ FEMA's *Lost Wages Supplemental Payment Assistance Guidelines* (April 22, 2022). This was FEMA's guidance available at the time of report issuance. The cited provision was in effect at all relevant times during our review period.



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According to the U.S. Department of Labor (DOL), most victims of UI program identity theft are unaware that claims have been filed or that benefits have been collected using their identities. Many people only find out they are the victim of UI program identity theft when they receive documentation in the mail, such as UI benefit payments or state-issued 1099-G tax forms that are incorrect or reflect benefits not received.⁷

DHS Employee Participation in the LWA Program

As a result of the COVID-19 pandemic, DHS faced disruptions in operations. Consequently, some DHS employees were furloughed. Furloughed and terminated former Federal employees could apply for unemployment benefits through one of the nine UI programs through their respective states and subsequently receive LWA benefits. Of the nine eligible programs, DHS employees primarily received LWA benefits through the Pandemic Unemployment Assistance (PUA) and the Unemployment Compensation for Federal Employees (UCFE) programs.

Pandemic Unemployment Assistance Program

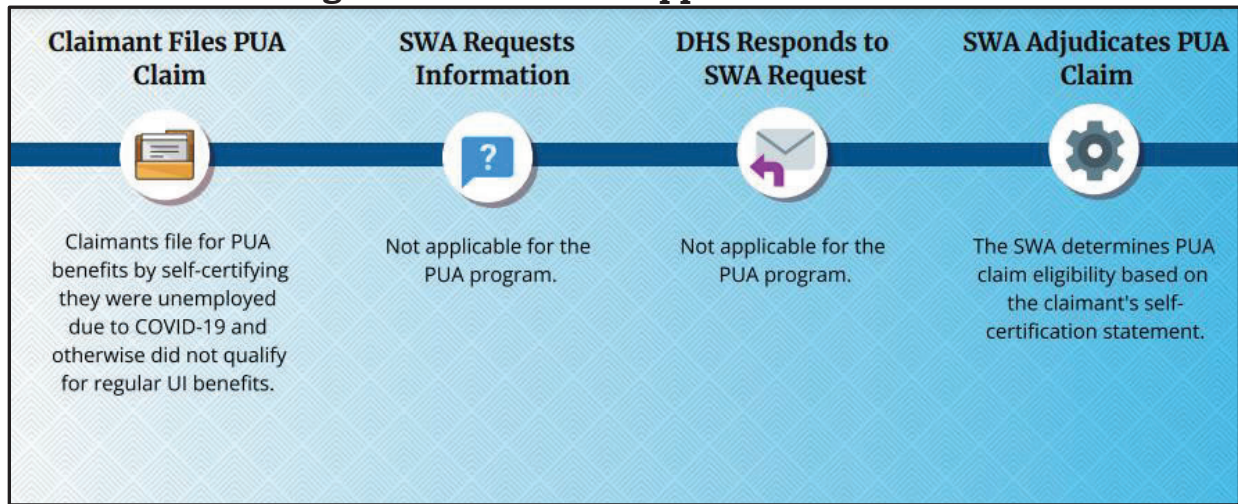
The PUA program was created as part of the CARES Act to assist individuals who would not normally be eligible for UI benefits (i.e., self-employed people, independent contractors, and freelancers). To receive PUA program benefits, claimants merely needed to self-certify they were unemployed or unable to work because of the pandemic and that they did not qualify for regular UI benefits under Federal law. In December 2020, the CARES Act was amended, requiring new claimants to provide documentation to substantiate self-employment. However, the new requirement was not retroactive for PUA claims filed during the LWA period of assistance. See Figure 1 for a flowchart of the PUA claim approval process.

⁷ DOL, *US Department of Labor Launches Website for Victims of Unemployment Fraud* [Press Release] (March 22, 2021).



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Figure 1. PUA Claim Approval Flowchart



Source: DHS Office of Inspector General analysis of DOL's PUA program requirements

Unemployment Compensation for Federal Employees Program

The UCFE program is administered by each state workforce agency (SWA) acting as an agent of the Federal government.⁸ The program operates under the same terms and conditions that apply to regular UI and provides benefits to Federal employees who were furloughed or terminated. In general, eligibility for benefits is determined based on the law of the state in which the individual's official Federal duty station is located.

The DHS Management Directorate's (MGMT) Office of the Chief Human Capital Officer (OCHCO) manages the UCFE program using a decentralized approach to perform day-to-day UCFE-related activities. Specifically, each DHS component handles its own UCFE processes, including the critical function of responding when SWAs request wage and separation information to confirm an individual's UCFE eligibility. DHS components may use a contractor to fulfill their UCFE responsibilities.⁹ Of the 10 DHS components that handle UCFE claims for DHS employees, 6 use the Department's contractor and the remaining 4 manage the UCFE program as part of their Human Resources function. See Figure 2 for a flowchart of the UCFE claim approval process.

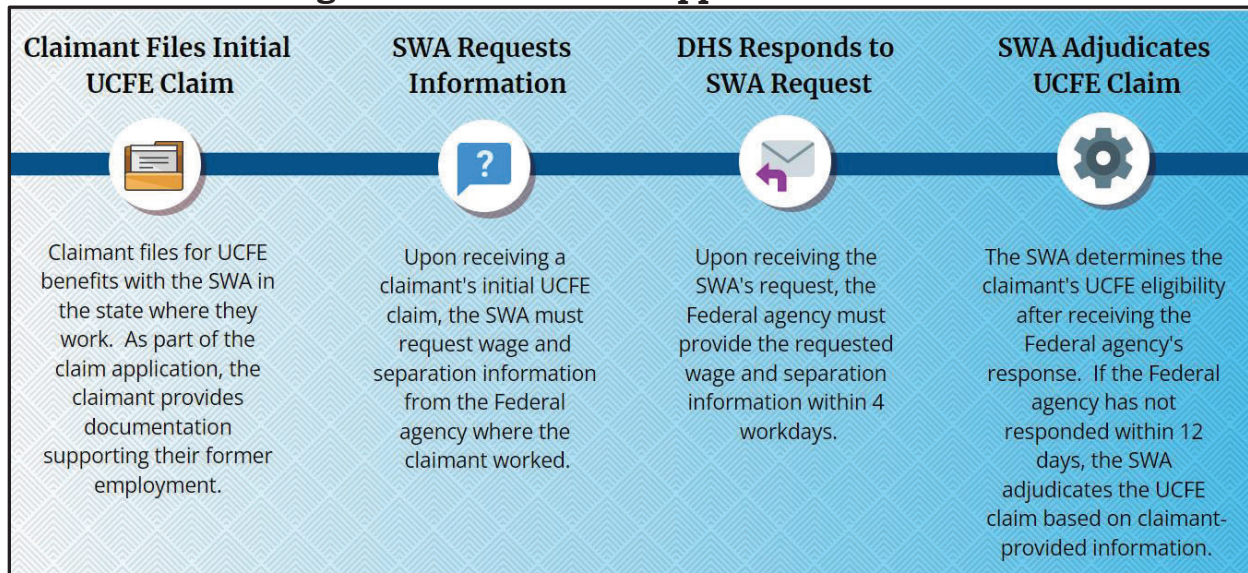
⁸ Congress created the Federal-State UI program in 1935, allowing each state to establish its own laws in accordance with broad Federal requirements.

⁹ DHS MGMT manages a contract to provide UCFE services for DHS offices at the Department level and for components.



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Figure 2. UCFE Claim Approval Flowchart



Source: DHS OIG analysis of departmental UCFE program processes and requirements

State Administrative Plans

FEMA did not make LWA payments directly to individuals. Instead, states', U.S. territories', and the District of Columbia's SWAs distributed the funds through their existing UI systems as a supplemental payment. To participate in the LWA program, interested SWAs submitted a grant award application to FEMA. As part of the application, SWAs completed a state administrative plan (administrative plan) for FEMA's approval. FEMA developed the administrative plan's template, which required the SWAs to describe how they would investigate and report fraud in connection with LWA program assistance. FEMA approved LWA grant applications for 54 SWAs, representing 49 states,¹⁰ 4 territories,¹¹ and the District of Columbia.

We conducted this audit to determine to what extent DHS employees were eligible to receive FEMA's Disaster Relief Funds for supplemental state LWA.

¹⁰ South Dakota was the only state that did not apply for or participate in the LWA program.

¹¹ U.S. territories that participated in the LWA program included the Commonwealth of the Northern Mariana Islands, Guam, Puerto Rico, and the U.S. Virgin Islands.



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Results of Audit

FEMA did not implement controls to prevent SWAs from paying more than \$2.6 million in LWA for potentially fraudulent claims made by DHS employees, or claimants who fraudulently used the identities of DHS employees to obtain LWA benefits. We reviewed data from 35 of the 54 SWAs that participated in the LWA program, representing 80 percent of the distributed LWA grant funds. We found 2,393 claims linked to DHS employees' identities, totaling \$3.3 million in LWA payments. Based on eligibility criteria and fraudulent risk indicators, we determined:

*Throughout the report, we used the phrase “**linked to DHS employees’ identities**” to clarify that claims may not have been filed by the employees themselves. Instead, fraudsters may have filed for benefits using DHS employees’ stolen personally identifiable information.*

- 1,809 DHS employees were ineligible or potentially ineligible for LWA benefits. The claims linked to these employees' identities totaled more than \$2.4 million in potentially fraudulent LWA payments based on eligibility criteria.
- 584 DHS employees were eligible to receive LWA benefits. However, 167 of the claims linked to eligible employees' identities (\$242,240) showed a high or medium risk of fraudulent activity, including identity theft, based on fraud risk indicators.

This occurred because FEMA hastily implemented the LWA program in 11 days, during an unprecedented pandemic, without developing program controls to prevent fraud. Instead, FEMA overly relied on underlying UI programs' controls, which had weaknesses (including how DHS' OCHCO processes UI claims), to determine LWA eligibility and prevent fraud. Additionally, FEMA did not ensure SWAs used consistent fraud prevention controls and did not verify the use of controls outlined in SWAs' administrative plans. As a result, the LWA program was vulnerable to fraud, including identity theft, putting more than \$2.6 million of the Disaster Relief Fund at risk.



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More than \$2.6 Million in Potentially Fraudulent LWA Payments Were Linked to DHS Employees' Identities

Based on analysis of data from 35 of the 54 SWAs that distributed LWA payments (representing 80 percent of distributed LWA grant funds), SWAs issued LWA payments linked to the names of 2,393 DHS employees. These payments totaled more than \$3.3 million. Just 584 of the 2,393 DHS employees were eligible for LWA program benefits. However, eligibility for LWA benefits did not prevent fraudulent activity from occurring; 167 of the claims linked to eligible employees showed clear indications of fraud, totaling \$242,000. Of the remaining 1,809 DHS employees, 935 were ineligible and 874 were potentially ineligible for the program; SWAs approved these LWA claims and issued more than \$2.4 million in LWA benefits even though the individuals were either fully or partially employed with DHS during the LWA assistance period.

LWA Payments Went to Ineligible or Potentially Ineligible Claimants

We identified 935 DHS employees in our dataset who were ineligible for the LWA program. SWAs paid approximately \$1.2 million in LWA benefits for these claims. These 935 individuals were fully employed¹² with DHS during the LWA period (July 25, 2020, through September 5, 2020), making them ineligible for UI benefits, and subsequently, LWA program benefits. Further, in 366 instances these employees worked overtime or extra shifts. In one case, an SWA approved a claim for a DHS employee who worked 147 hours, on average, in each pay period between July 25, 2020, and September 5, 2020.

An additional 874 DHS employees in our dataset were potentially ineligible for the program. SWAs paid approximately \$1.2 million in LWA benefits for these claims. These individuals were partially employed with DHS between July 25, 2020, and September 5, 2020. According to the Code of Federal Regulations (C.F.R.), individuals are eligible for partial UI benefits when they work less than their customary hours because of a lack of work and earn less than the state's earnings limit.¹³ Because each of the 35 SWAs in our dataset had different rules for determining whether someone was eligible for partial UI benefits, we used the C.F.R.'s broad partial unemployment criteria as a basis for our analysis. To ensure we only flagged claims that were likely to have been ineligible for all 35 SWAs, we compared the number of hours each employee worked with their normal duty hours. For example, if an employee was normally scheduled to work 80 hours in a pay period and worked 80 hours, we

¹² We defined fully employed individuals as those who worked at least their customary or scheduled duty hours. See Appendix A for the detailed criteria we used to classify individuals as fully employed.

¹³ 20 C.F.R. Part 625, *Disaster Unemployment Assistance*, Appendix A (Employment Security Manual, Part V, Section 5001B).



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considered this employee to be ineligible. If the same employee worked less than their customary 80 hours and may have earned more than the state’s earning limit, we considered the employee potentially ineligible. Finally, if this employee did not work any hours, we considered this employee to be eligible.

Table 1 shows a breakdown of our LWA claim eligibility determinations by DHS component.

Table 1. LWA Claim Eligibility Determination by DHS Component

Component / Directorate	Ineligible	Potentially Ineligible	Eligible	Total Reviewed
CBP	233	14	12	259
CISA	6	0	0	6
Coast Guard	22	0	1	23
FEMA	77	663	383	1,123
FLETC	1	1	1	3
ICE	70	0	11	81
MGMT	9	1	2	12
Secret Service	16	3	1	20
TSA	445	175	149	769
USCIS	56	17	24	97
Total Claims	935	874	584	2,393
Distribution	39%	37%	24%	100%
LWA Program	\$1,207,240	\$1,224,327	\$875,409	\$3,306,976
UI Programs	\$11,601,260	\$13,185,327	\$8,528,441	\$33,315,028
Total Benefits	\$12,808,500	\$14,409,654	\$9,403,850	\$36,622,004

Source: DHS OIG analysis of DOL UI and LWA program data

LWA Paid to DHS Employees’ Identities Showed Clear Indications of Fraud

We identified LWA claims linked to DHS employees’ identities that showed clear indications of fraudulent activity, including identity theft. We assessed the 2,393 DHS employee claims against 14 fraud indicators to develop an individualized risk profile for each claimant. For example, two significant fraud indicators we used identified claims that were filed from outside the United States and instances involving multiple claims filed from the same internet protocol (IP) address. Using each claimant’s risk profile, we developed a weighted average fraud risk score to quantify each claimant’s risk of fraud, including identity theft. See Appendix C for each indicator’s hit rate (i.e., the number of times each indicator was present in the reviewed claims) and Appendix D for a description of each of the 14 fraud risk indicators.

Using the fraud risk scores, we categorized each claim as high, medium, or low risk. Based on our analysis, we found nearly \$1.5 million (45 percent) of the \$3.3 million in LWA payments were associated with a high or medium risk of



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fraudulent activity, including identity theft. Specifically, we found a high or medium risk of fraud in the following data subsets in Table 1:

- 713 of the 935 (76 percent) claims linked to ineligible DHS employees. These payments totaled \$908,400.
- 248 of the 874 (28 percent) claims linked to potentially ineligible DHS employees. These payments totaled \$340,720.
- 167 of the 584 (29 percent) claims linked to eligible DHS employees. These payments totaled \$242,240.

Table 2 summarizes the level of risk for each subset of employees — ineligible, potentially ineligible, and eligible — by DHS component.

Table 2. Fraud Risk Level by Component

Component / Directorate	Ineligible Claims		Potentially Ineligible Claims		Eligible Claims		Total
	High/Medium	Low	High/Medium	Low	High/Medium	Low	
CBP	198	35	9	5	9	3	259
CISA	6	0	0	0	0	0	6
Coast Guard	20	2	0	0	0	1	23
FEMA	43	34	193	470	111	272	1,123
FLETC	1	0	0	1	0	1	3
ICE	62	8	0	0	7	4	81
MGMT	9	0	1	0	0	2	12
Secret Service	15	1	2	1	0	1	20
TSA	308	137	37	138	35	114	769
USCIS	51	5	6	11	5	19	97
Total	713	222	248	626	167	417	2,393
% of Total	76%	24%	28%	72%	29%	71%	N/A
Total LWA Benefits	\$1,207,240		\$1,224,327		\$875,409		\$3,306,976
Potential LWA Fraud	\$908,400		\$340,720		\$242,240		\$1,491,360

Source: DHS OIG analysis of DOL UI and LWA program data

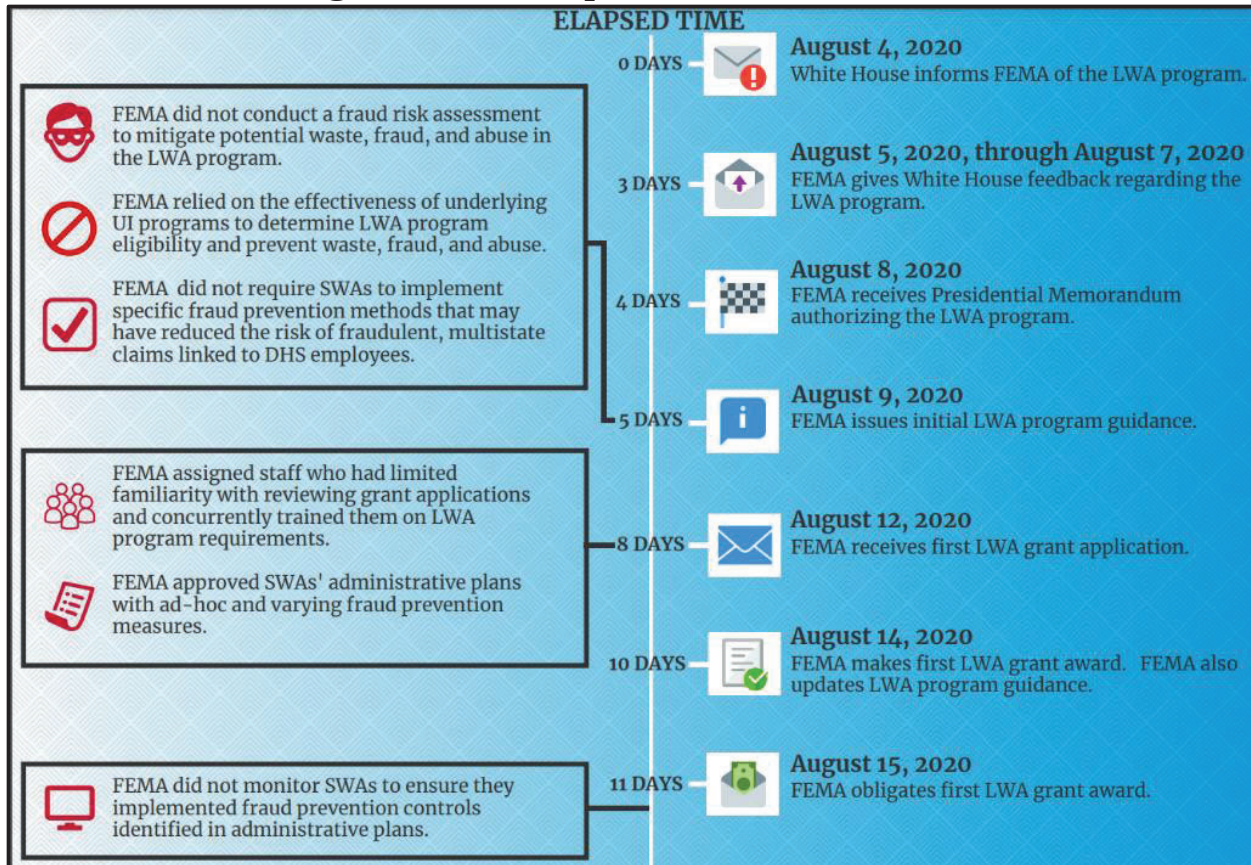
As shown in Figure 3, we identified geographic clusters of potentially fraudulent activity based on the physical location where the high and medium risk claims were filed. Based on our analysis, potential fraud involving DHS employees' identities was highly concentrated in three locations: California,



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Figure 4. LWA Implementation Timeline



Source: DHS OIG analysis of FEMA milestones

FEMA Overly Relied on Weak Underlying UI Program Controls

FEMA overly relied on existing UI processes to determine LWA eligibility and prevent fraud. These underlying UI programs had weaknesses that compromised SWAs' ability to determine if claims linked to DHS employees' identities were eligible for LWA benefits. Claims linked to DHS employees' identities were generally approved for LWA program benefits through the PUA and UCFE programs, as shown in Figure 5. These two underlying UI programs used differing criteria to verify eligibility for benefits. PUA relied on self-certifications for claim eligibility, increasing that program's (and consequently, the LWA program's) susceptibility to fraud. Meanwhile, the UCFE process requires the Department to ensure SWAs had accurate information to correctly determine UCFE and LWA claim eligibility. However, the Department had inadequate controls to prevent ineligible UCFE claims.



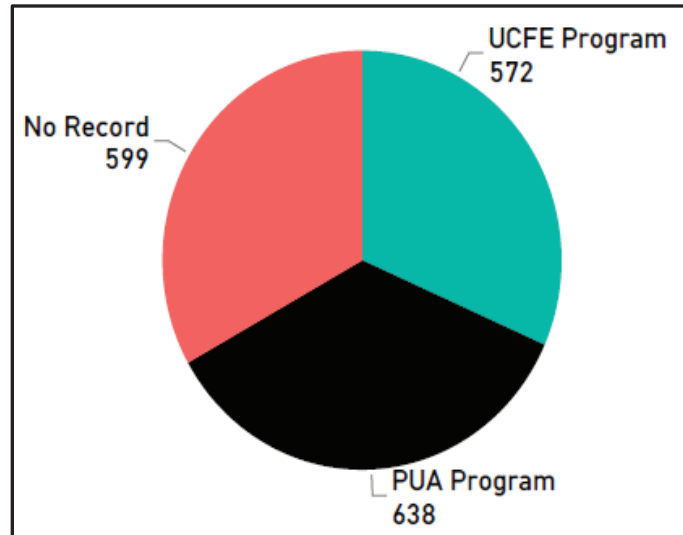
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Specifically, of the 1,809 claims for ineligible or potentially ineligible DHS employees:

- 638 (35 percent) claims “qualified” through the PUA program and were not subject to DHS processing.
- 572 (32 percent) claims “qualified” through conventional UI programs — specifically, the UCFE program — and were processed by DHS or its contractor.
- 599 (33 percent) claims were linked to DHS employees’ identities, yet the Department had no record of examining the claims as part of the UCFE program.

Figure 5. Underlying UI Programs



Source: DHS OIG analysis of DOL UI data

Reliance on PUA Self-Certifications Increased the LWA Program’s Susceptibility to Fraud

We found that 638 of the 1,809 (35 percent) claims for ineligible or potentially ineligible DHS employees resulted in the award of more than \$8.8 million in PUA and other underlying program benefits.¹⁶ According to the CARES Act, these claimants only needed to self-certify they met eligibility requirements when they filed for PUA benefits. Consequently, SWAs did not request wage and separation information from DHS to determine whether the claimants were eligible.

Before FEMA implemented the LWA program, Federal agencies warned that self-certification was problematic. DOL OIG reported the PUA program was susceptible to fraud, concluding that solely relying on self-certifications would lead to an increase in improper payments.¹⁷ According to Office of Management and Budget (OMB) Circular A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*, Appendix C (June 26,

¹⁶ The \$8.8 million includes benefits from programs such as Federal Pandemic Unemployment Compensation but does not include LWA benefits.

¹⁷ *Alert Memorandum: The Pandemic Unemployment Assistance Program Needs Proactive Measures to Detect and Prevent Improper Payments and Fraud*, DOL OIG Report No. 19-20-002-03-315 (May 2020).



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2018),¹⁸ a payment is considered improper if it was issued in an incorrect amount or issued to the wrong recipient, or when insufficient documentation exists to determine appropriateness. As DOL OIG described in its report, PUA claimants generally only needed to “check a box” next to a qualifying criterion to receive benefits. Additionally, shortly before the LWA program began, we issued reports warning FEMA that relying on self-certifications without requiring documentation and verification may increase the likelihood of fraudulent or improper payments.¹⁹ Despite the repeated warnings, FEMA did not require controls to mitigate the unreliability of PUA program self-certifications.

Further, after FEMA launched the LWA program, the Small Business Administration (SBA) OIG reported that relying on self-certifications for a similar pandemic program — the Economic Injury Disaster Loan program — resulted in entities receiving millions in potentially ineligible benefits.²⁰ Additionally, the Pandemic Response Accountability Committee (PRAC) recently reported that ambiguous Federal guidance about how to administer UI payments to claimants self-certifying unemployment has hampered the SWAs’ ability to prevent UI fraud.²¹

¹⁸ We relied on the version of OMB Circular A-123 Appendix C that was in effect during all relevant times of our review period.

¹⁹ *FEMA Has Made More than \$3 Billion in Improper and Potentially Fraudulent Payments for Home Repair Assistance since 2003*, OIG-20-23 (April 2020); and *FEMA Has Paid Billions in Improper Payments for SBA Dependent Other Needs Assistance since 2003*, OIG-20-60 (August 2020).

²⁰ *Inspection of Small Business Administration’s Initial Disaster Assistance Response to the Coronavirus Pandemic*, SBA No. 21-02 (October 2020).

²¹ *Best Practices and Lessons Learned from the Administration of Pandemic-Related Unemployment Benefits Programs*, PRAC (February 2022).



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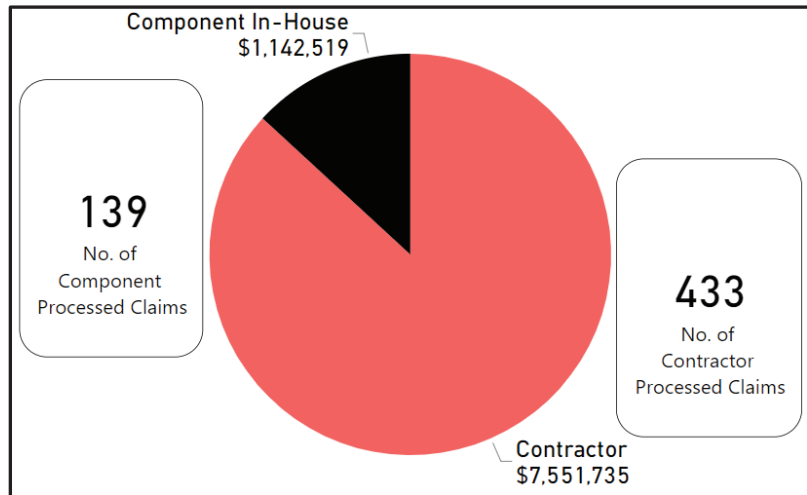
The Department’s UCFE Program Controls Did Not Prevent SWAs from Approving Ineligible Claims

We found that 572 of the 1,809 (32 percent) claims for ineligible or potentially ineligible DHS employees resulted in more than \$8.6 million in underlying benefits from conventional UI programs, including the UCFE program. These claims went through the Department’s wage and separation verification process intended to ensure SWAs have

accurate information to

make UI eligibility determinations. Specifically, DHS’ contractor processed 433 of the 572 (76 percent) ineligible or potentially ineligible claims. The remaining 139 of the 572 (24 percent) claims were processed directly by DHS or one of its components. Figure 6 shows how the Department processed SWAs’ requests for wage and separation information.

Figure 6. DHS UCFE Processing Methods



Source: DHS OIG analysis of DOL UI data

The Department’s process for reviewing SWA requests for information did not have sufficient controls to detect and prevent ineligible or potentially ineligible claimants from receiving UCFE program benefits. Figure 7 summarizes the insufficient UCFE program controls we identified at each component.



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Figure 7. Summary of DHS UCFE Program Controls by Component

	UCFE Policies and Procedures	UCFE Appeal Procedures	UCFE Dedicated Official	UCFE Control Log	UCFE Program Monitoring	Third-Party Monitoring
CBP	✓	✓	✓	✓	✗	N/A
CISA	✗	✗	✓	N/A	✗	✗
Coast Guard	✓	✓	✓	N/A	✗	✗
FEMA	✓	✓	✓	N/A	✗	✗
FLETC	✓	✓	✓	✗	✗	N/A
ICE	✗	✗	✗	✗	✗	N/A
MGMT*	✗	✗	✓	N/A	✗	✗
Secret Service	✓	✗	✓	N/A	✗	✗
TSA	✓	✓	✓	✓	✓	N/A
USCIS	✗	✗	✗	N/A	✗	✗
Compliant	6	5	8	2	1	0
Non-Compliant	4	5	2	2	9	6
Total	10	10	10	4	10	6
Non-Compliant %	40%	50%	20%	50%	90%	100%

* MGMT also processes UCFE requests for Countering Weapons of Mass Destruction employees.
** N/A denotes a procedure that does not apply based on the Component's UCFE processing method.

Source: DHS OIG analysis of DHS components' UCFE program processes

Specifically, we determined:

- DHS' UCFE program policies are inconsistent, do not contain appropriate guidance, or are missing entirely at some components. According to DOL's *UCFE Instructions for Federal Agencies* (March 1995), Federal agencies should develop procedures to effectively administer their UCFE requirements and are responsible for participating in the UCFE appeals process. However, we determined 4 of the 10 components responsible for processing UCFE claims did not have any such policies and procedures (Cybersecurity and Infrastructure Security Agency (CISA), U.S. Immigration and Customs Enforcement (ICE), MGMT, U.S. Citizenship and Immigration Services (USCIS)). Another component, the United States Secret Service, did not have documented procedures for appealing SWA UCFE claim determinations believed to be incorrect.
- DHS components did not always assign a dedicated official to manage their UCFE programs. According to DOL's *UCFE Instructions for Federal Agencies*, agencies should assign responsibilities for the UCFE program



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to an official with authority to update operations to ensure effective administration of the program. However, we determined that 2 of the 10 components responsible for processing UCFE claims did not assign such an official (ICE, USCIS).

- DHS components did not always maintain a UCFE control log to track their responses to SWA requests for wage and separation information within the required timeframe. According to DOL's *UCFE Instructions for Federal Agencies*, Federal agencies are responsible for providing requested information to SWAs within 4 workdays of the request. If SWAs have not received the Federal agency's response within 12 days, they can determine a claim's eligibility based on information the claimant provided at the time of submission. However, two of the four components responsible for processing UCFE claims — without using a contractor — did not implement a tracking mechanism (Federal Law Enforcement Training Centers (FLETC), ICE). Without such a mechanism, DHS cannot ensure SWAs are making UCFE eligibility determinations based on accurate information.
- DHS did not monitor internal UCFE program operations or monitor the performance of its contractor as required. According to DOL's *UCFE Instructions for Federal Agencies*, Federal agencies are responsible for regularly assessing their UCFE program operations, including any contractor's performance, to ensure all agency activities pertaining to the UCFE program are handled as required. However, we determined 9 of the 10 components responsible for processing UCFE claims did not review program operations as required (U.S. Customs and Border Protection (CBP), CISA, United States Coast Guard, FEMA, FLETC, ICE, MGMT, Secret Service, USCIS). Further, none of the six components that used the contractor reviewed the contractor's effectiveness (CISA, Coast Guard, FEMA, MGMT, Secret Service, USCIS).

Remaining Claims Did Not Have Verification Controls or Accurate Information

We found that 599 of the 1,809 (33 percent) claims for ineligible or potentially ineligible DHS employees resulted in more than \$7.2 million in underlying UI benefits from conventional UI programs, including the UCFE program. DHS did not have any records documenting that it verified the accuracy of the claimants' information as part of the UCFE process. These claims may in fact have been sent to DHS for review but not recorded by the components. For example, 8 of the 599 claims were for former FLETC and ICE employees. Because FLETC and ICE did not implement a tracking mechanism to monitor SWA requests for wage and separation information, we could not determine whether DHS reviewed these claims. In other cases, the claims may not have gone through the Department's wage and separation verification process. For instance, 115 of the 599 claims did not list DHS as the employee's most recent



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former employer, which may have led SWAs to improperly exclude DHS from the wage and separation verification process.

FEMA Did Not Ensure Consistency or Verify Controls in SWAs' Administrative Plans

According to the Stafford Act, FEMA must conduct quality assurance activities on SWAs' implementation of ONA programs.²² However, FEMA approved SWAs' administrative plans without ensuring SWAs used a consistent approach to administer the LWA program. According to FEMA officials, this occurred because they had limited staff who were familiar with reviewing and processing grant applications and had to concurrently train staff on LWA program requirements as SWAs were submitting applications.

Specifically, we found the controls within the administrative plans to be ad-hoc, with varying degrees of fraud prevention measures. For instance, although 10 of the 54 (19 percent) SWAs attested to implementing the National Association of State Workforce Agencies' (NASWA) Integrity Data Hub (data hub) as a layer of fraud protection, the remaining 44 SWAs (81 percent) chose not to implement this free tool. DOL provides SWAs free access to NASWA's data hub through a grant. The data hub allows SWAs to analyze UI data to identify and prevent payment of claims filed in more than one state or territory.²³

In addition, according to the Stafford Act, FEMA must monitor SWAs' implementation of ONA programs.²⁴ However, FEMA did not monitor the SWAs to ensure they used the fraud prevention controls included in their administrative plans. Because of the absence of oversight, FEMA did not discover that SWAs did not always implement the procedures attested to in their administrative plans as a condition of receiving LWA grant awards. For example, although 10 SWAs included the NASWA data hub in their administrative plans, our analysis of NASWA data revealed that just 4 of the 10 SWAs used the data hub at least once when processing claims for July 25, 2020, through September 5, 2020. Further, only one of these four (25 percent) SWAs used the data hub consistently for each of the 6 weeks of LWA assistance.

Although FEMA did not require SWAs to use NASWA's data hub as a fraud prevention method, our analysis indicates using the tool might have reduced the number of fraudulent claims linked to DHS employees' identities filed in multiple states. We identified that for 194 of the 935 (21 percent) ineligible

²² 42 U.S.C. § 5174(f)(3)(D).

²³ *Alert Memorandum: The Employment and Training Administration (ETA) Needs to Ensure State Workforce Agencies (SWA) Implement Effective Unemployment Insurance Program Fraud Controls for High Risk Areas*, DOL OIG Report No. 19-21-002-03-315 (February 22, 2021).

²⁴ 42 U.S.C. § 5174(f)(3)(D).



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claims, the individuals filed claims in more than one state. Consequently, 190 of these 194 (98 percent) ineligible claims were processed by SWAs that did not use the data hub as part of their fraud prevention controls. Notably, we did not identify any instances of multistate claims involving the only SWA that consistently used the data hub as attested to in its administrative plan.

Conclusion

FEMA left the LWA program vulnerable to the same fraud schemes that plague our Nation's UI programs because it relied on weak underlying UI program controls to determine eligibility and prevent fraud. This allowed ineligible and potentially ineligible DHS employees, or individuals using their identities, to receive LWA. In doing so, FEMA allowed SWAs to issue LWA payments in an incorrect amount or to the wrong claimant, or without obtaining sufficient documentation to determine appropriateness. Further, FEMA did not verify whether SWAs used the fraud controls outlined in their administrative plans. The Department is also culpable because its UCFE program did not contain the necessary controls to ensure SWAs had accurate information to determine claim eligibility.

Consequently, the Department significantly increased DHS employees' risk of fraud and exposure to identity theft. As we demonstrated, without effective fraud prevention controls, even claims purportedly filed by eligible individuals may pose a significant risk of fraud, including identity theft. Until the Department addresses its UCFE weaknesses, SWAs may continue to approve and issue UI benefits to ineligible DHS employees or fraudsters who have assumed the identities of DHS employees. Because of these deficiencies, both FEMA and the Department potentially affected the Nation's readiness to respond to future emergencies and natural disasters by jeopardizing Disaster Relief Fund assets. As a result, we question more than \$2.6 million paid to DHS employees, or claimants who used the identities of DHS employees to fraudulently obtain LWA benefits. We have concluded the benefits paid to those individuals are likely to be improper payments. Our findings represent what potentially occurred with the LWA program on a national level. LWA claims from employees of other Federal agencies may also pose a significant risk of fraud, including identity theft. If so, this would substantially increase the number of potential improper payments associated with the LWA program.

Recommendations

Recommendation 1: We recommend the FEMA Administrator develop and implement a standard risk assessment process before initiating new Federal grant programs. This risk assessment should focus on identifying and evaluating program risks that may affect FEMA's ability to prevent waste, fraud, and abuse in its programs and mitigating those external risks to the extent practical.



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Recommendation 2: We recommend the FEMA Administrator conduct an after-action study of the Lost Wages Assistance program and update FEMA Individual Assistance programs based on the lessons learned from the study.

Recommendation 3: We recommend the FEMA Administrator, when mandated to rely on eligibility determinations of non-FEMA programs, develop a process to assess the program controls and identify risk, where practical.

Recommendation 4: We recommend the Chief Human Capital Officer for DHS' Management Directorate develop, implement, and communicate departmental policies and procedures for the Unemployment Compensation for Federal Employees program to each component to ensure compliance with Federal requirements.

Recommendation 5: We recommend the FEMA Administrator develop and implement a process to monitor whether grantees implement and use the controls attested to in FEMA-approved state administrative plans.

Recommendation 6: We recommend the FEMA Administrator develop and implement a process to review state administrative plans for consistency and ensure they include fraud prevention and mitigation strategies.

Recommendation 7: We recommend the FEMA Administrator de-obligate and recover any monies determined to have been obtained fraudulently or other improper payments through the Lost Wages Assistance program from the state workforce agencies.



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Management Comments and OIG Analysis

DHS provided written comments to our draft report lauding the Department's ability to develop and execute LWA within 11 days of the President's direction. The Department states that senior FEMA leadership disagreed with our conclusion that it did not implement fraud prevention controls because it considers the LWA policies and procedures it developed to be sufficient. FEMA asserted it coordinated with external parties, including NASWA, to identify areas of potential risk, and FEMA's Individual Assistance Division issued a memorandum alerting the SWAs of their obligation to investigate allegations of fraud, waste, and abuse and report those activities to us. We have reviewed the Department's comments, as well as the technical comments previously submitted under separate cover and updated the report as appropriate. Appendix B contains DHS' management response in its entirety. DHS concurred with recommendations 1, 3, 4, 6, and 7, but did not concur with recommendations 2 and 5. The following is our analysis of the Department's written comments and response to each recommendation.

OIG Response to Overall Management Comments

Although we applaud FEMA for implementing the LWA program within 11 days, this achievement came at great expense. FEMA did not implement appropriate, thorough controls to prevent fraud before it occurred and did not monitor SWAs to ensure they implemented the controls attested to as a condition of receiving LWA grant funding. As a result, FEMA did not protect DHS employees from the potential identity theft and fraud identified in this report. Additionally, FEMA risked at least \$2.6 million of the Disaster Relief Fund.

FEMA's policies did not require SWAs to implement controls to prevent fraud from occurring; instead, they focused on detecting fraud after the fraudulent activity already occurred. We have presented strong evidence that supports the value of implementing preventive controls as an inherent part of the program planning process, instead of relying solely on detection controls. FEMA's reactive approach to fraud prevention does not satisfy its Stafford Act responsibilities.

FEMA asserted it coordinated with external parties, including NASWA, to identify areas of potential risk. Unfortunately, FEMA did not implement additional preventive controls as a result of this coordination, nor did it provide us any quantifiable evidence the coordination prevented fraud or identity theft. For example, FEMA missed an opportunity to incorporate NASWA's data hub into the LWA program as a layer of fraud prevention. Further, FEMA's coordination largely focused on differentiating LWA program payments from underlying UI payments, which we do not consider to be a preventive control.



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In addition, although FEMA's Individual Assistance Division issued a memorandum alerting the SWAs of their obligation to report allegations of fraud, waste, and abuse to DHS OIG, the memorandum was issued 18 months after the LWA program began and only after we raised concerns to FEMA about suspected LWA fraud through a Management Alert.²⁵ Further, instead of interacting directly with SWAs and fostering open lines of communication, FEMA relied on DOL to disseminate the memorandum. Although FEMA's actions were an appropriate response to the management alert, the communication would have served more effectively as a preventive control if it had been issued at the start of the program.

FEMA's responses to recommendations 1, 2, 3, 5, and 7, which duplicate recommendations made in OIG-22-69, *FEMA Did Not Implement Controls to Prevent More than \$3.7 Billion in Improper Payments from the Lost Wages Assistance Program*, are taken from its management comments to that report.

DHS Response to Recommendation 1: Concur. Senior FEMA leadership believes FEMA already has adequate internal controls in place to provide an equivalent level of assurance of mitigating fraud, waste, and abuse as would be provided by a risk assessment. For example, FEMA expressly informed all recipients and subrecipients of grants that they are subject to specific fraud prevention and detection measures. Additionally, FEMA's Recovery and Fraud Investigations and Inspections Division coordinated with internal and external stakeholders to mitigate LWA program risks, such as ensuring the grant award included the responsibility and requirement of states to reimburse FEMA for benefits deemed to be improper. FEMA asked us to consider this recommendation resolved and closed, as implemented.

OIG Analysis: Because this recommendation is duplicative of recommendation 1 in OIG-22-69, *FEMA Did Not Implement Controls to Prevent More than \$3.7 Billion in Improper Payments from the Lost Wages Assistance Program*, we will administratively close the recommendation for this audit. Recommendation 1 in OIG-22-69 is open and unresolved.

DHS Response to Recommendation 2: Non-Concur. Senior FEMA leadership does not believe that conducting an after-action study would be a prudent use of its limited resources because (1) the LWA program was a one-time form of assistance during an unprecedented national pandemic, (2) FEMA does not anticipate being directed to implement this form of assistance again, and (3) all LWA awards are currently in closeout. FEMA asked us to consider this recommendation resolved and closed.

²⁵ Management Alert – *Reporting Suspected Fraud of Lost Wages Assistance* OIG 22-28 (Feb. 28, 2022).



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OIG Analysis: Because this recommendation is duplicative of recommendation 6 in OIG-22-69, *FEMA Did Not Implement Controls to Prevent More than \$3.7 Billion in Improper Payments from the Lost Wages Assistance Program*, we will administratively close the recommendation for this audit. Recommendation 6 in OIG-22-69 is open and unresolved.

DHS Response to Recommendation 3: Concur. FEMA's Recovery and Fraud Investigations and Inspections Division concluded that assessing the program controls for every state unemployment system was neither practical nor reasonable. Consequently, FEMA's Individual Assistance Division relied on guidance from its partners at DOL to implement fraud prevention measures in a timely manner at the onset of the program. FEMA asked us to consider this recommendation resolved and closed.

OIG Analysis: Because this recommendation is duplicative of recommendation 2 in OIG-22-69, *FEMA Did Not Implement Controls to Prevent More than \$3.7 Billion in Improper Payments from the Lost Wages Assistance Program*, we will administratively close the recommendation for this audit. Recommendation 2 in OIG-22-69 is open and unresolved.

DHS Response to Recommendation 4: Concur. MGMT OCHCO is implementing a UCFE program policy directive that ensures components thoroughly and promptly vet unemployment compensation claims. MGMT OCHCO will require components to confirm compliance with Federal requirements. Estimated completion date: January 31, 2023.

OIG Analysis: We consider MGMT OCHCO's planned actions responsive to this recommendation, which is open and resolved. We will close the recommendation when MGMT OCHCO provides documentation showing it has developed and implemented the UCFE program policies.

DHS Response to Recommendation 5: Non-Concur. Senior FEMA leadership believes FEMA currently has sufficient internal controls to support fraud prevention and detection measures. For example, all recipients and subrecipients of FEMA grant awards are informed they are subject to fraud prevention measures. In addition, FEMA's Recovery Division and Grants Program Directorate notify grantees that programmatic monitoring must be performed to ensure effective grants management. FEMA asked us to consider this recommendation resolved and closed, as implemented.

OIG Analysis: Because this recommendation is duplicative of recommendation 4 in OIG-22-69, *FEMA Did Not Implement Controls to Prevent More than \$3.7 Billion in Improper Payments from the Lost Wages Assistance Program*, we will administratively close the recommendation for this audit. Recommendation 4 in OIG-22-69 is open and unresolved.



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DHS Response to Recommendation 6: Concur. FEMA acknowledges the importance of preventing and mitigating fraud. Although there are general points of alignment across FEMA's current set of administrative plans, these plans are not required to be identical for every state and program. Additionally, FEMA's Individual Assistance Division issued an alert to DOL for distribution to SWAs; the alert reminded SWAs of their obligation to expeditiously investigate and report to DHS OIG any allegations of waste, fraud, and abuse in the LWA program. FEMA asked us to consider this recommendation resolved and closed, as implemented.

OIG Analysis: Although FEMA concurred with the recommendation, its actions are not fully responsive. FEMA asserted that administrative plans will vary. We recognize that variations may occur in administrative plans. However, these variations should not prevent FEMA from identifying a minimum standard of controls applicable to a program based on the results of its risk assessment and assessing administrative plans against that standard. This recommendation will remain open and unresolved until FEMA provides documentation showing it has developed and implemented a process to review administrative plans for consistency.

DHS Response to Recommendation 7: Concur. Senior FEMA leadership stated that ongoing investigations prevent the Recovery Division from working with the SWAs to help them recover funds from individuals. In addition, FEMA's Individual Assistance Division requires SWAs to identify overpayments as part of the LWA closeout process and repay identified improper payments not otherwise waived. Moreover, FEMA cannot act until appeal rights associated with ongoing investigations are concluded and final amounts owed are determined. Currently, the final amounts owed back to FEMA are unknown. FEMA asked us to consider this recommendation resolved and closed.

OIG Analysis: Because this recommendation is duplicative of recommendation 7 in OIG-22-69, *FEMA Did Not Implement Controls to Prevent More than \$3.7 Billion in Improper Payments from the Lost Wages Assistance Program*, we will administratively close the recommendation for this audit. Recommendation 7 in OIG-22-69 is open and resolved.



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Appendix A

Objective, Scope, and Methodology

The Department of Homeland Security Office of Inspector General was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*.

We conducted this audit to determine to what extent DHS employees were eligible to receive FEMA's Disaster Relief Funds for supplemental state LWA. To answer this objective, we reviewed the Presidential Memorandum on *Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019* and Federal laws and regulations related to ONA and applicable underlying UI programs. We reviewed FEMA's internal control processes, policies, procedures, and guidance related to the LWA program. We also reviewed the Department's internal control processes, policies, procedures, and guidance related to the UCFE program. Additionally, we reviewed prior audit reports related to the audit objective, including DHS OIG reports, Government Accountability Office reports, DOL OIG reports, PRAC reports, and congressional testimony.

In planning and performing our audit, we identified the internal control components and underlying internal control principles that were significant to the audit objective. Specifically, we reviewed DHS' organizational structure, fraud risk assessments, policies and procedures, information and communication methods, and monitoring controls. We identified internal control deficiencies that could adversely affect FEMA and the Department's ability to ensure only eligible DHS employees received FEMA's Disaster Relief Funds for supplemental state LWA. However, because we limited our review to these internal control components and underlying principles, our work may not have disclosed all internal control deficiencies that may have existed at the time of our audit.

We conducted seven interviews with personnel from FEMA's Individual Assistance Division, Office of Chief Financial Officer, Office of Chief Counsel, and Grants Program Directorate to understand their roles and responsibilities related to the LWA program. Additionally, we conducted five interviews with DHS personnel from OCHCO, including the Contracting Officer's Representative for OCHCO's contractor, to understand the roles and responsibilities they have in the UCFE program. Finally, we conducted two additional interviews with Human Resources representatives from the Transportation Security Administration (TSA) and FEMA to understand DHS' UCFE program processes at the component level. Due to COVID-19 travel restrictions, we held virtual meetings and interviews to answer our audit objective and substantiate claims made throughout the audit.



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We coordinated with DOL OIG to develop a Data Use Agreement (DUA) to identify LWA claims linked to DHS employees' identities. DOL OIG previously acquired LWA and underlying UI program data from 26 of the 54 SWAs for its internal auditing procedures. In accordance with the DUA, DOL OIG conducted a single, computerized data match of UI and LWA program data against a roster of DHS employees using National Finance Center (NFC) data as of September 8, 2020. Based on the data matching procedures, DOL OIG identified 18,160 DHS employees (or individuals using DHS employees' identities) who either applied for or received UI benefits between June 2020 and March 2021. Of the 18,160 claimants, 1,157 received \$1,451,427 in LWA benefits.

Because DOL OIG's data match results were limited to 26 of the 54 SWAs, we obtained supplemental LWA program data directly from 9 additional states and territories. Using this additional data, we independently conducted data matching procedures and identified an additional 1,236 DHS employee claims that resulted in LWA benefits amounting to \$1,855,549. In total, we identified an audit population of 2,393 claimants who were issued \$3,306,976 in LWA benefits through 35 SWAs. This population covered more than 80 percent of FEMA's LWA grants.

We tested 100 percent of the 2,393 claimants who received LWA benefits to determine the extent that ineligible individuals received LWA benefits due to waste, fraud, or abuse. Specifically, we reviewed information about each DHS employee under whose name a claim had been filed and determined if they were ineligible, potentially ineligible, or eligible for LWA benefits. To make this determination, we reviewed WebTA²⁶ time and attendance records for pay periods 15 through 19 of 2020 (i.e., July 19, 2020, through September 12, 2020) to determine each individual's employment status with DHS. We also corroborated the number of hours each DHS employee worked with payment data obtained from the Department of Treasury's Bureau of the Fiscal Service.

We used the following criteria to classify each DHS employee as eligible, ineligible, or potentially ineligible during the 6-week LWA program period (July 25, 2020, through September 5, 2020):

- **Eligible:** We considered DHS employees eligible for LWA benefits when they met one of the following criteria:
 - WebTA time and attendance records documented the employee worked no hours in at least one of the LWA program pay periods.
 - No WebTA time and attendance record was available for the employee in at least one of the LWA program pay periods.

²⁶ DHS uses the WebTA system to track its employees' time and attendance.



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- **Ineligible:** We considered DHS employees ineligible for LWA benefits when they met one of the following criteria:
 - WebTA time and attendance records documented the employee worked their scheduled duty hours (i.e., the employee was fully employed).
 - WebTA time and attendance records documented the employee as “intermittent” (i.e., on-call) and working 80 hours or more, on average, during LWA program pay periods (i.e., they worked a full-time schedule even though they were on-call).
 - WebTA time and attendance records documented less than or equal to 10 percent of the employee’s scheduled duty hours to Leave Without Pay.²⁷
 - WebTA time and attendance records documented time to one of the following leave categories: Absent Without Leave²⁸ or Suspended.
- **Potentially Ineligible:** We considered DHS employees potentially ineligible for LWA benefits when they met one of the following criteria:
 - WebTA time and attendance records documented the employee as “intermittent” (i.e., on-call) and working fewer than 80 hours, on average, during LWA program pay periods.
 - WebTA time and attendance records documented more than 10 percent of the employee’s scheduled work hours to Leave Without Pay.

Additionally, we collaborated with the DHS OIG Office of Investigations, the DHS OIG Office of Innovation, DHS components, and NASWA officials extensively throughout the audit to obtain additional data to assess DHS employee participation in the LWA program. Specifically, we obtained the NFC employee roster detailing employment information, contractor and DHS component wage and separation reports, Department of Treasury data detailing payment and banking information, geolocation metadata, and data hub usage rates aggregated by NASWA officials. Using the additional data points, we developed 14 indicators to assess the risk of fraud (including identity theft) for each of the 2,393 DHS employee claims. We used the fraud risk indicators to develop a fraud risk profile for each claimant by developing a weighted average risk score. (See Appendix D in the report for a description and the weights used for each of the 14 indicators. See Appendix C for the hit rates for each of the 14 indicators.) Next, we categorized each risk score as high, medium, or low risk based on the weighted average risk scores. Finally, we ranked each claimant from highest to lowest risk of fraud. We referred all instances of

²⁷ In our testing, we encountered a variety of circumstances in which an individual charged Leave Without Pay in cases that did not appear to be because of a lack of work as prescribed by 20 C.F.R. Appendix A to Part 625, *Standard for Claim Filing, Claimant Reporting, Job Finding, and Employment Services* (e.g., insufficient annual leave balance). Based on these observations, we determined a 10 percent threshold was reasonable.

²⁸ “Absent Without Leave” is used in cases of unauthorized absence from work duty.



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suspected fraud as identified through our audit procedures to DHS OIG's Office of Investigations.

We also evaluated the Department's processes for managing its UCFE program, including its methods for tracking and responding to SWA requests for wage and separation information. Specifically, we surveyed 10 DHS components responsible for processing UCFE program claims to compare the internal controls and processes across the Department that could affect the SWAs' ability to make accurate UCFE claim determinations. We also requested and evaluated DHS components' UCFE policies and procedures, UCFE control logs, and reports from the Department's contractor to corroborate the components' responses.

To determine the reliability of the data we used during this audit, we conducted six separate data reliability assessments. Specifically, we matched the NFC employee roster dataset with Cognos²⁹ reports from the Office of Personnel Management to ensure its completeness. We also compared financial LWA grant data from FEMA's Integrated Financial Management System³⁰ against FEMA's State Award Letters to ensure its accuracy. Additionally, we assessed the results of recent System and Organizational Controls 1 reports for OMB Circular A-123 compliance to ensure no material weaknesses existed within NFC's controls over financial reporting. We reviewed and assessed the sufficiency of DOL OIG's data access safeguards and DUA procedures that resulted in the identification of DHS claimants who received LWA benefits in 26 of the 35 states and territories we tested. We also verified the accuracy of the LWA datasets we used to identify DHS claimants who received LWA benefits in the remaining 9 of the 35 states and territories. Specifically, we matched the state and territory datasets with LWA expenditure data from FEMA's Integrated Financial Management System to determine if the state and territory datasets were complete. Finally, we reconciled the Department of Treasury's Bureau of the Fiscal Service payment data with supporting WebTA time and attendance records to verify its accuracy. After our data reliability assessments, we concluded the data was sufficiently reliable to support the findings, recommendations, and conclusions in the report.

We conducted this performance audit between April 2021 and August 2022 pursuant to the *Inspector General Act of 1978, as amended*, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

²⁹ Cognos is a business intelligence tool for web-based reporting and analytics.

³⁰ The Integrated Financial Management System is FEMA's official financial system of record.



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Appendix B
DHS Comments to the Draft Report

U.S. Department of Homeland Security
Washington, DC 20528



Homeland Security

August 24, 2022

MEMORANDUM FOR: Joseph V. Cuffari, Ph.D.
Inspector General

FROM: Jim H. Crumpacker, CIA, CFE **JIM H**
Director **CRUMPACKER**
Departmental GAO-OIG Liaison Office

Digitally signed by JIM H
CRUMPACKER
Date: 2022.08.24 10:27:07
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SUBJECT: Management Response to Draft Report: “The Identities of DHS
Employees Were Linked to More than \$2.6 Million in
Potentially Fraudulent Lost Wages Assistance”
(Project No. 21-021-AUD-FEMA)

Thank you for the opportunity to comment on this draft report. The U.S. Department of Homeland Security (DHS or the Department) appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

DHS leadership is pleased to note OIG’s recognition that the Federal Emergency Management Agency (FEMA) implemented the Lost Wages Assistance (LWA) program within 11 days after being directed via Presidential Memorandum¹ on August 8, 2020, to provide relief additional to the “Coronavirus Aid, Relief, and Economic Security Act” (Public Law 116-136, enacted on March 27, 2020). The Department is proud that FEMA made the first LWA award just six days after (on August 14, 2020) issuance of the Presidential Memorandum.

Senior FEMA leadership, however, *disagrees* with the OIG’s conclusion that FEMA did not develop program controls to prevent fraud. To the contrary, for example, FEMA developed and released the “Lost Wages Supplemental Payment Assistance Guidelines,” dated April 22, 2022,² which included “Frequently Asked Questions About Receiving Supplemental Payments for Lost Wages” (FAQ) written in coordination with the Department of Labor (DOL) to enable states to effectively implement LWA and manage their grants. Specifically, the FAQ notes that states, territories, and the District of Columbia workforce agencies have an obligation to expeditiously investigate and report

¹ <https://trumpwhitehouse.archives.gov/presidential-actions/memorandum-authorizing-needs-assistance-program-major-disaster-declarations-related-coronavirus-disease-2019/>

² <https://www.fema.gov/disaster/coronavirus/governments/supplemental-payments-lost-wages-guidelines>



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any evidence of fraud, waste or abuse to the DHS OIG; and the FAQ address roles and responsibilities for recovering overpayments and returning improper payments to FEMA.

In keeping with FEMA's commitment to fiscal responsibility, FEMA was also proactive in mitigating risks associated with potential fraud related to LWA. For example, in early August 2020, FEMA Recovery's Individual Assistance (IA) Division, Office of Chief Counsel, and Office of the Chief Security Officer's Fraud Investigations and Inspections Division (FIID) engaged with the DHS OIG's Major Fraud and Corruptions Unit (MFCU), the DOL OIG, and the National Association of State Workforce Agencies (NASWA) to discuss the LWA program, possible information or data sharing, risks the program presented, and potential ways to mitigate those risks. This coordination included, among other things, the sharing of FEMA's Automated Clearing House header with DHS OIG, DOL OIG, and NASWA providing information enabling those agencies to identify FEMA payments, perform data analytics, collect funds disbursed due to fraudulent activity, and potentially prevent the disbursement of funds to ineligible recipients.

On February 9, 2022, FEMA's IA Division also provided an alert via email to DOL for distribution to remind all state, territory, and District of Columbia workforce agencies participating in the LWA program of their obligation to expeditiously investigate and report to the DHS OIG any evidence or allegations of fraud, waste, and abuse in their LWA programs, or by claimants. The alert stated that state workforce agencies (SWAs) must also investigate allegations of fraud, waste, and abuse independently or in conjunction with DHS OIG, if requested by DHS OIG. On February 14, 2022, the DOL issued the alert to FEMA's LWA recipients (i.e., SWAs) in all states, territories, and the District of Columbia.

In addition to these fraud mitigation actions designed specifically for LWA, FEMA requires SWAs as part of the LWA grant closeout process to: (1) identify overpayments; (2) describe their procedures used to waive overpayments as allowed under certain circumstances pursuant to Section 262 of the "Continued Assistance for Unemployed Workers Act of 2020;" and (3) repay FEMA for all identified overpayments not waived under Section 262, whether they recover the funds or not from claimants.

DHS remains committed to FEMA's mission of helping people before, during, and after disasters. Leadership believes the LWA program represents a powerful example of FEMA's ability to provide critical aid to survivors during a national emergency. FEMA's successful implementation of this program within days of authorization ensured tens of millions of people adversely affected by the COVID-19 pandemic were able to receive much-needed financial assistance.

The draft report contained seven recommendations, including five with which the Department does not provide a response (Recommendations 1, 2, 3, 5, and 7) as they



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duplicate recommendations OIG made in another report to which FEMA has provided a management response,³ and two with which the Department concurs (Recommendations 4 and 6). Enclosed find our detailed response to each recommendation. DHS previously submitted technical comments addressing accuracy, contextual and other issues under a separate cover for OIG's consideration.

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions.

Enclosure

³ See FEMA management response to "FEMA Did Not Prevent More than \$3.7 Billion in Improper Payments from the Lost Wages Assistance Program" (Project No. 21-040-AUD-FEMA), dated August 24, 2022.



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**Enclosure: Management Response to Recommendations
Contained in 21-021-AUD-FEMA**

OIG recommended the FEMA Administrator:

Recommendation 1: Develop and implement a standard risk assessment process before initiating new Federal grant programs. This risk assessment should focus on identifying and evaluating program risks that may affect FEMA's ability to prevent waste, fraud, and abuse in its programs and mitigating those external risks to the extent practical.

Response: None provided as FEMA already responded to this recommendation as part of Project No. 21-040-AUD-FEMA (see Recommendation 1 in that report, with which FEMA concurred).

Recommendation 2: Conduct an after-action study of the Lost Wages Assistance program and update FEMA Individual Assistance programs based on the lessons learned from the study.

Response: None provided as FEMA already responded to this recommendation as part of Project No. 21-040-AUD-FEMA (see Recommendation 6 in that report, with which FEMA non-concurred).

Recommendation 3: When mandated to rely on eligibility determinations of non-FEMA programs, FEMA develop a process to assess the program controls and identify risk to the extent practical.

Response: None provided as FEMA already responded to this recommendation as part of Project No. 21-040-AUD-FEMA (see Recommendation 2 in that report, with which FEMA concurred).

OIG recommended the Chief Human Capital Officer for DHS' Management Directorate (MGMT):

Recommendation 4: Develop, implement, and communicate departmental policies and procedures for the Unemployment Compensation for Federal Employees program to each component to ensure compliance with Federal requirements.

Response: Concur. MGMT's Office of the Chief Human Capital Officer will issue a policy directive for the Unemployment Compensation for Federal Employees program which will direct Components to ensure that unemployment compensation claims are vetted in a thorough and timely manner. DHS Components will also be required to



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confirm compliance with Federal requirements. Estimated Completion Date: January 31, 2023.

OIG recommended the FEMA Administrator:

Recommendation 5: Develop and implement a process to monitor whether grantees implement and use the controls attested in FEMA-approved State Administrative Plans.

Response: None provided as FEMA already responded to this recommendation as part of Project No. 21-040-AUD-FEMA (see Recommendation 4 in that report, with which FEMA non-concurred).

Recommendation 6: Develop and implement a process to review State Administrative Plans for consistency and ensure they include fraud prevention and mitigation strategies.

Response: Concur. Senior FEMA leadership acknowledges the importance in preventing fraud and mitigating the effects when fraud occurs. Accordingly, with regard to disaster assistance, all existing FEMA-State Agreements, including those with territories and the District of Columbia, contain provisions that outline states' responsibilities to:

- (1) notify FEMA of any potential debt as a result of funds expended in fraud, misrepresentation, error, or for any otherwise disallowed reasons;
- (2) report all cases of suspected fraud to the DHS OIG;
- (3) cooperate with any investigation conducted by the DHS OIG; and
- (4) cooperate with FEMA regarding any and all lawsuits that may result.

It is also important to note, however, that while there are general points of alignment across FEMA's current universe of existing State Administrative Plans, these plans are not required to be identical for every state and program, as there may exist disaster-specific or state-specific considerations necessary to achieve the most effective recovery outcomes.

Also importantly, as regards the LWA program, on February 9, 2022, FEMA's IA Division provided an alert to DOL for distribution to remind all state, territory, and District of Columbia workforce agencies participating in the LWA program of their obligation to expeditiously investigate and report to the DHS OIG any evidence or allegations of fraud, waste, and abuse in their LWA programs, or by claimants. The alert also stated that SWAs must investigate allegations of fraud, waste, and abuse independently or in conjunction with DHS OIG, if requested by DHS OIG. On February 14, 2022, the DOL issued the alert to FEMA's LWA recipients (i.e., SWAs) in all states, territories, and the District of Columbia.



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We request the OIG consider this recommendation resolved and closed, as implemented.

Recommendation 7: De-obligate and recover any monies determined to have been obtained fraudulently or other improper payments through Lost Wages Assistance from the state workforce agencies.

Response: None provided as FEMA already responded to this recommendation as part of Project No. 21-040-AUD-FEMA (see Recommendation 7 in that report, with which FEMA concurred).



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Appendix C
Fraud Risk Indicator Hit Rates by DHS Component

Fraud Risk Indicator		DHS Component										
No.	Description	CBP	CISA	FEMA	FLETC	ICE	MGMT	TSA	Coast Guard	USCIS	Secret Service	Total
1	Claim Name Not Associated with Social Security Number	20	0	19	1	10	0	23	4	10	4	91
2	Out-of-State Claim	142	5	133	1	46	9	146	19	39	15	555
3	Claim Home State Discrepancy	143	5	132	1	49	9	141	17	40	14	551
4	Non-DHS Former Employer	103	1	140	1	31	4	163	9	31	10	493
5	Questionable Email Address	116	4	169	0	36	5	162	8	44	7	551
6	Another DHS Component Listed	5	0	22	0	3	1	27	0	2	1	61
7	Multistate Claim	57	1	141	0	29	2	95	9	24	6	364
8	Multiple Claims from IP Address	50	1	86	0	10	1	56	5	11	1	221
9	Multiple Claims Using Bank Account	1	0	10	0	1	0	6	0	0	0	18
10	Filed Claim Outside U.S.	4	0	1	0	0	0	1	0	1	0	7
11	Filed Claim Outside State	67	3	130	0	19	3	101	11	29	4	367
12	Filed Claim using DHS Network	1	0	26	0	1	0	6	0	1	0	35
13	DHS Employment and Bank Account	9	0	4	0	4	0	147	1	2	1	168
14	Multiple Claims with Same Mailing Address	28	0	74	0	11	0	45	4	11	4	177

Source: DHS OIG analysis of DOL UI and LWA program data



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Appendix D
Fraud Risk Indicators and Risk Weight

No.	Title	Description	Risk Weight
1	Name Not Associated with Social Security Number	Identifies instances of DHS employees filing for UI benefits using a name that was not associated with employee's social security number.	10%
2	Out-of-State Claim	Identifies instances of DHS employees filing for UI benefits in a state in which they did not work according to NFC records.	20%
3	Claim Home State Discrepancy	Identifies instances of DHS employees filing for UI benefits using a home state address that did not match the employee's home state per NFC records.	5%
4	Non-DHS Former Employer	Identifies instances of DHS employees filing for UI benefits indicating a former employer that was not DHS.	10%
5	Questionable Email Address	Identifies instances of DHS employees filing for UI benefits using an email address that does not appear to be associated to the employee or may be fabricated.	15%
6	Another DHS Component Listed	Identifies instances of DHS employees filing for UI benefits as an employee of another DHS component per NFC records.	5%
7	Multistate Claim	Identifies instances of DHS employees filing for UI benefits in multiple states.	20%
8	Multiple Claims from IP Address	Identifies instances of DHS employees filing multiple UI benefit claims from the same IP address.	*
9	Multiple Claims Using Bank Account	Identifies instances of DHS employees using the same bank account number to file for UI benefits under multiple claimants.	*
10	Filed Claim Outside U.S.	Identifies instances of DHS employees filing for UI benefits from a location outside of the United States.	*
11	Filed Claim Outside State	Identifies instances of DHS employees filing for UI benefits in a location outside of the state in which they filed.	15%
12	Filed Claim Using DHS Network	Identifies instances of DHS employees filing for UI benefits from a DHS-owned Autonomous System Number (i.e., network).	*
13	DHS Employment and Bank Account	Identifies instances in which the individual was an active DHS employee between July 25, 2020, and September 5, 2020, and filed for UI benefits using the same bank account they have on file for payroll disbursements.	*
14	Multiple Claims with Same Mailing Address	Identifies instances of multiple DHS employees filing for UI benefits using the same physical mailing address.	*

* Denotes an egregious indicator that alone categorizes the DHS claimant as high risk.



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Appendix E
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